

purchase of the securities complied with the limits in this paragraph.

(2) A Bank's purchase of any mortgage-backed or asset-backed security may not cause the value of its total holdings of mortgage-backed and asset-backed securities, measured as of the transaction trade date for such purchase, to increase in any calendar quarter by more than 50 percent of its total capital as of the beginning of such quarter.

(3) For purposes of applying the limits under this paragraph (c), the value of relevant mortgage-backed or asset-backed securities shall be calculated based on amortized historical costs for securities classified as held-to-maturity or available-for-sale and on fair value for trading securities.

#### **§ 1267.4 Limitations and prudential requirements on use of derivative instruments.**

(a) *Non-speculative use.* Derivative instruments that do not qualify as hedging instruments pursuant to GAAP may be used only if a non-speculative use is documented by the Bank.

(b) *Additional Prohibitions.* (1) A Bank may not enter into interest rate swaps that amortize according to behavior of instruments described in § 1267.3(a)(5) or (6) of this part.

(2) A Bank may not enter into indexed principal swaps that have average lives that vary by more than six years under an assumed instantaneous change in interest rates of 300 basis points, unless they are entered into in conjunction with the issuance of consolidated obligations or the purchase of permissible investments or entry into a permissible transaction in which all interest rate risk is passed through to the investor or counterparty.

(c) *Documentation requirements.* (1) Derivative transactions with a single counterparty shall be governed by a single master agreement when practicable.

(2) A Bank's agreement with the counterparty for over-the-counter derivative contracts shall include:

(i) A requirement that market value determinations and subsequent adjustments of collateral be made at least on a monthly basis;

(ii) A statement that failure of a counterparty to meet a collateral call will result in an early termination event;

(iii) A description of early termination pricing and methodology, with the methodology reflecting a reasonable estimate of the market value of the over-the-counter derivative contract at termination (standard International Swaps and Derivatives Association, Inc. language relative to early termination pricing and methodology may be used to satisfy this requirement); and

(iv) A requirement that the Bank's consent be obtained prior to the transfer of an agreement or contract by a counterparty.

#### **§ 1267.5 Risk-based capital requirements for investments.**

Any Bank which is not subject to the capital requirements set forth in part 932 of this title shall hold retained earnings plus general allowance for losses as support for the credit risk of all investments that are not rated by an NRSRO, or are rated or have a putative rating below the second highest credit rating, in an amount equal to or greater than the outstanding balance of the investments multiplied by:

(a) A factor associated with the credit rating of the investments as determined by FHFA on a case-by-case basis for rated assets to be sufficient to raise the credit quality of the asset to the second highest credit rating category; and

(b) 0.08 for assets having neither a putative nor actual rating.

### **PART 1269—STANDBY LETTERS OF CREDIT**

Sec.

1269.1 Definitions.

1269.2 Standby letters of credit on behalf of members.

1269.3 Standby letters of credit on behalf of housing associates.

1269.4 Obligation to Bank under all standby letters of credit.

1269.5 Additional provisions applying to all standby letters of credit.

AUTHORITY: 12 U.S.C. 1429, 1430, 1430b, 1431, 4511, 4513 and 4526.

SOURCE: 63 FR 65699, Nov. 30, 1998, unless otherwise noted. Redesignated at 65 FR 8256,

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Feb. 18, 2000, and further redesignated at 67 FR 12853, Mar. 20, 2002 and 75 FR 8240, Feb. 24, 2010.

### § 1269.1 Definitions.

As used in this part:

*Act* means the Federal Home Loan Bank Act as amended (12 U.S.C. 1421 through 1449).

*Applicant* means a person or entity at whose request or for whose account a standby letter of credit is issued.

*Bank* written in title case means a Federal Home Loan Bank established under section 12 of the Act (12 U.S.C. 1432).

*Beneficiary* means a person or entity who, under the terms of a standby letter of credit, is entitled to have its complying presentation honored.

*Community lending* means providing financing for economic development projects for targeted beneficiaries, and, for community financial institutions (as defined in §1263.1 of this title), purchasing or funding small business loans, small farm loans or small agribusiness loans (as defined in §1266.1 of this chapter).

*Confirm* means to undertake, at the request or with the consent of the issuer, to honor a presentation under a standby letter of credit issued by a member or housing associate.

*Document* means a draft or other demand, document of title, investment security, certificate, invoice, or other record, statement, or representation of fact, law, right, or opinion that is presented under the terms of a standby letter of credit.

*Investment grade* means:

(1) A credit quality rating in one of the four highest credit rating categories by an NRSRO and not below the fourth highest credit rating category by any NRSRO; or

(2) If there is no credit quality rating by an NRSRO, a determination by a Bank that the issuer, asset or instrument is the credit equivalent of investment grade using credit rating standards available from an NRSRO or other similar standards.

*Issuer* means a person or entity that issues a standby letter of credit.

*NRSRO* means a credit rating organization registered with the Securities and Exchange Commission as a nation-

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ally recognized statistical rating organization.

*Presentation* means delivery of a document to an issuer, or an entity that has undertaken a confirmation at the request or with the consent of the issuer, for the giving of value under a standby letter of credit.

*Residential housing finance* means:

(1) The purchase or funding of “residential housing finance assets,” as that term is defined in §1266.1 of this chapter; or

(2) Other activities that support the development or construction of residential housing.

*SHFA associate* means a housing associate that is a “state housing finance agency,” as that term is defined in §1264.1 of this chapter, and that has met the requirements of §1269.3(b) of this chapter.

*Standby letter of credit* means a definite undertaking by an issuer on behalf of an applicant that represents an obligation to the beneficiary, pursuant to a complying presentation: to repay money borrowed by, advanced to, or for the account of the applicant; to make payment on account of any indebtedness undertaken by the applicant; or to make payment on account of any default by the applicant in the performance of an obligation. The term *standby letter of credit* does not include a commercial letter of credit, or any short-term self-liquidating instrument used to finance the movement of goods.

[63 FR 65699, Nov. 30, 1998, as amended at 65 FR 8265, Feb. 18, 2000; 65 FR 44431, July 18, 2000. Redesignated and amended at 67 FR 12853, Mar. 20, 2002; 75 FR 8240, Feb. 24, 2010; 75 FR 76623, Dec. 9, 2010]

### § 1269.2 Standby letters of credit on behalf of members.

(a) *Authority and purposes.* Each Bank is authorized to issue or confirm on behalf of members standby letters of credit that comply with the requirements of this part, for any of the following purposes:

(1) To assist members in facilitating residential housing finance;

(2) To assist members in facilitating community lending;

(3) To assist members with asset/liability management; or

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(4) To provide members with liquidity or other funding.

(b) *Fully secured.* A Bank, at the time it issues or confirms a standby letter of credit on behalf of a member, shall obtain and maintain a security interest in collateral that is sufficient to secure fully the member's unconditional obligation described in § 1269.4(a)(2) of this part, and that complies with the requirements set forth in paragraph (c) of this section.

(c) *Eligible collateral.* (1) Any standby letter of credit issued or confirmed on behalf of a member may be secured in accordance with the requirements for advances under § 1266.7 of this chapter.

(2) A standby letter of credit issued or confirmed on behalf of a member for a purpose described in paragraphs (a)(1) or (a)(2) of this section may, in addition to the collateral described in paragraph (c)(1) of this section, be secured by obligations of state or local government units or agencies rated as investment grade by an NRSRO.

[63 FR 65699, Nov. 30, 1998, as amended at 65 FR 8265, Feb. 18, 2000; 65 FR 44431, July 18, 2000. Redesignated and amended at 67 FR 12853, Mar. 20, 2002; 75 FR 8240, Feb. 24, 2010; 75 FR 76623, Dec. 9, 2010]

### § 1269.3 Standby letters of credit on behalf of housing associates.

(a) *Housing associates.* Each Bank is authorized to issue or confirm on behalf of housing associates standby letters of credit that are fully secured by collateral described in § 1266.17(b)(1)(i) or (ii) of this chapter, and that otherwise comply with the requirements of this part, for any of the following purposes:

(1) To assist housing associates in facilitating residential housing finance;

(2) To assist housing associates in facilitating community lending;

(3) To assist housing associates with asset/liability management; or

(4) To provide housing associates with liquidity or other funding.

(b) *SHFA associates.* Each Bank is authorized to issue or confirm on behalf of SHFA associates standby letters of credit that are fully secured by collateral described in § 1266.17(b)(2)(i)(A), (B) or (C) of this chapter, and that otherwise comply with the requirements of this part, for the purpose of facilitating

residential or commercial mortgage lending that benefits individuals or families meeting the income requirements in section 142(d) or 143(f) of the Internal Revenue Code (26 U.S.C. 142(d) or 143(f)).

[63 FR 65699, Nov. 30, 1998, as amended at 65 FR 8265, Feb. 18, 2000; 65 FR 44431, July 18, 2000; 75 FR 8240, Feb. 24, 2010; 75 FR 76623, Dec. 9, 2010]

### § 1269.4 Obligation to Bank under all standby letters of credit.

(a) *Obligation to reimburse.* A Bank may issue or confirm a standby letter of credit only on behalf of a member or housing associate that has:

(1) Established with the Bank a cash account pursuant to §§ 1266.17(b)(2)(i)(B), 1266.17(d), or 969.2 of this title; and

(2) Assumed an unconditional obligation to reimburse the Bank for value given by the Bank to the beneficiary under the terms of the standby letter of credit by depositing immediately available funds into the account described in paragraph (a)(1) of this section not later than the date of the Bank's payment of funds to the beneficiary.

(b) *Prompt action to recover funds.* If a member or housing associate fails to fulfill the obligation described in paragraph (a)(2) of this section, the Bank shall take action promptly to recover the funds that such member or housing associate is obligated to repay.

(c) *Obligation financed by advance.* Notwithstanding the obligations and duties of the Bank and its member or housing associate under paragraphs (a) and (b) of this section, the Bank may, at its discretion, permit such member or housing associate to finance repayment of the obligation described in paragraph (a)(2) of this section by receiving an advance that complies with sections 10 or 10b of the Act (12 U.S.C. 1430, 1430(b)) and part 1266 of this title.

[63 FR 65699, Nov. 30, 1998, as amended at 65 FR 8265, Feb. 18, 2000; 65 FR 44431, July 18, 2000. Redesignated and amended at 67 FR 12853, Mar. 20, 2002; 75 FR 8240, Feb. 24, 2010; 75 FR 76623, Dec. 9, 2010]

## § 1269.5

### § 1269.5 Additional provisions applying to all standby letters of credit.

(a) *Requirements.* Each standby letter of credit issued or confirmed by a Bank shall:

(1) Contain a specific expiration date, or be for a specific term; and

(2) Require approval in advance by the Bank of any transfer of the standby letter of credit from the original beneficiary to another person or entity.

(b) *Additional collateral provisions.* (1) A Bank may take such steps as it deems necessary to protect its secured position on standby letters of credit, including requiring additional collateral, whether or not such additional collateral conforms to the requirements of § 1269.2 or § 1269.3 of this part.

(2) Collateral pledged by a member or housing associate to secure a letter of credit issued or confirmed on its behalf by a Bank shall be subject to the provisions of §§ 1266.7(d), 1266.7(e), 1266.8, 1266.9 and 1266.10 of this chapter.

[63 FR 65699, Nov. 30, 1998, as amended at 65 FR 8265, Feb. 18, 2000; 65 FR 44431, July 18, 2000. Redesignated and amended at 67 FR 12853, Mar. 20, 2002; 75 FR 8240, Feb. 24, 2010; 75 FR 76623, Dec. 9, 2010]

## PART 1270—LIABILITIES

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Sec.

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### Subpart B—Sources of Funds

1270.2 Authorized liabilities.

1270.3 Deposits from members.

### Subpart C—Consolidated Obligations

1270.4 Issuance of consolidated obligations.

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1270.8 Administrative provision.

1270.9 Conditions for issuance of consolidated obligations.

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1270.12 Law governing rights and obligations of Banks, FHFA, Office of Finance,

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United States and Federal Reserve Banks; rights of any Person against Banks, FHFA, Office of Finance, United States and Federal Reserve Banks.

1270.13 Law governing other interests.

1270.14 Creation of Participant's Security Entitlement; security interests.

1270.15 Obligations of the Banks and the Office of Finance; no Adverse Claims.

1270.16 Authority of Federal Reserve Banks.

1270.17 Liability of Banks, FHFA, Office of Finance and Federal Reserve Banks.

1270.18 Additional requirements; notice of attachment for Book-entry consolidated obligations.

1270.19 Reference to certain Department of Treasury commentary and determinations.

1270.20 Consolidated obligations are not obligations of the United States or guaranteed by the United States.

AUTHORITY: 12 U.S.C. 1431, 1432, 1435, 4511, 4512, 4513, and 4526.

SOURCE: 76 FR 18369, Apr. 4, 2011, unless otherwise noted.

## Subpart A—Definitions

### § 1270.1 Definitions.

As used in this part, unless the context otherwise requires or indicates:

*Adverse Claim* means a claim that a claimant has a property interest in a Book-entry consolidated obligation and that it is a violation of the rights of the claimant for another Person to hold, transfer, or deal with the Security.

*Bank*, written in title case, means a Federal Home Loan Bank established under section 12 of the Bank Act.

*Bank Act* means the Federal Home Loan Bank Act, as amended (12 U.S.C. 1421 through 1449).

*Book-entry consolidated obligation* means a consolidated obligation maintained in the book-entry system of the Federal Reserve Banks.

*Consolidated obligation* means any bond, debenture or note on which the Banks are jointly and severally liable and which was issued under section 11 of the Bank Act (12 U.S.C. 1431) and in accordance with any implementing regulations, whether or not such instrument was originally issued jointly by the Banks or by the Federal Housing Finance Board on behalf of the Banks.

*Deposits in banks or trust companies* means: